Supreme Court, U.S.
FILED
NOV 24 1995
OFFICE OF THE CLERK

(1)

95 • 808

No. _____

In The

Supreme Court of the United States

October Term, 1995

SOUTHEASTERN EXPRESS CO., ET AL.,

Petitioners,

vs.

TRIAD SYSTEMS CORPORATION,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR WRIT OF CERTIORARI

RONALD S. KATZ*
ROBERT A. CHRISTOPHER
RICHARD A. JONES
JANET ARNOLD HART
COUDERT BROTHERS
4 Embarcadero Center
Suite 3300
San Francisco, CA 94111
Telephone: (415) 986-1300

Attorneys for Petitioners Southeastern Express Co., et al.

*Counsel of Record

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

94 pp

QUESTIONS PRESENTED

1. Whether the temporary, electronic copy of a computer program created in a computer's Random Access Memory during normal usage of the computer meets the standard of fixation for a "copy" under the Copyright Act (17 U.S.C. § 101).

2. Whether a licensee of a computer program who has paid for the use of that program constitutes an "owner of a copy" under 17 U.S.C. § 117, and thus may authorize third parties to use the computer program for the licensee's benefit.

3. Whether it is a fair use of a licensed computer software program under 17 U.S.C. § 107 for a third party to load the program into the licensee's computer for the purpose of helping the licensee to maintain the computer.

LIST OF PARTIES AND RULE 29.1 LIST

The parties to the proceedings below were Southeastern Express Company, George Barnes, Gerry Wambolt, Kevin Clark, and Triad Systems Corporation.

Petitioner Southeastern Express Company has no parent companies or subsidiaries to list pursuant to Rule 29.1.

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED	i
LIST OF PARTIES AND RULE 29.1 LIST	ii
OPINIONS BELOW	1
JURISDICTION	1
STATUTORY PROVISION INVOLVED	2
STATEMENT OF THE CASE	2
REASONS FOR GRANTING THE WRIT	5
I. *Certiorari* should be granted to review the question of whether loading a computer software program into the computer's RAM constitutes a "copy" under the Copyright Act	10
II. This Court should grant *certiorari* to resolve a split in the circuits regarding the interpretation of 17 U.S.C. § 117	14
III. The *Triad* court's decision rejecting the fair use defense conflicts with this Court's holding in *Kodak*	18
CONCLUSION	23

TABLE OF AUTHORITIES

Page

CASES

Apple Computer, Inc. v. Formula International, Inc., 562 F. Supp. 775 (C.D. Cal. 1983), *aff'd*, 725 F.2d 521 (9th Cir. 1984) 11, 12, 13

Boston Store of Chicago v. American Graphophone Co., 246 U.S. 8 (1918) 18

Campbell v. Acuff-Rose Music, Inc., 114 S. Ct. 1164 (1994) 9

Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 451 (1992) 7, 19, 20, 22

Gutierrez de Martinez v. Lamagno, 115 S. Ct. 2227 (1995) 10

Lotus Development Corporation v. Borland International, Inc., 49 F.3d 807 (1st Cir.), *cert. granted*, 64 U.S.L.W. 3238 (1995) 7, 9

MAI Systems Corporation v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993) ..... *passim*

Straus v. Victor Talking Machine Co., 243 U.S. 490 (1917) 18

Triad Systems Corporation v. Southeastern Express Co., et al., 64 F.3d 1330 (9th Cir. 1995) ..... *passim*

Twentieth Century Music Corp. v. Aiken, 422 U.S. 151 (1975) 6, 20

Vault Corporation v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988) 7, 9, 16

Virginia Bankshares, Inc. v. Sandberg, 501 U.S. 1083 (1991) 14

TABLE OF AUTHORITIES – Continued

Page

STATUTES

17 U.S.C. § 101 ..... 2, 11

17 U.S.C. § 106 ..... 14, 16

17 U.S.C. § 107 ..... 2, 4

17 U.S.C. § 117 ..... 14, 15, 16, 17, 24

28 U.S.C. § 1254(1) 2

28 U.S.C. §§ 1331 and 1332 1

MISCELLANEOUS

Trinnie Arriola, *Software Copyright Infringement Claims After MAI Systems v. Peak*, 69 Wash. L. Rev. 405 (1994) 6, 17, 18, 21

Final Report of the National Commission on New Technological Uses of Copyrighted Works, H.R. Rep. No. 12207, 96th Cong., 2d Sess. pt.1 (July 31, 1978) 9, 17

Michael E. Johnson, *The Uncertain Future of Computer Software Users' Rights In The Aftermath of MAI Systems*, 44 Duke L.J. 327 (1994) 5, 9

Katrine Levin, *MAI v. Peak: Should Loading Operating System Software Into RAM Constitute Copyright Infringement?*, 24 Golden Gate U. L. Rev. 649 6

2 Melville B. Nimmer, *Nimmer on Copyright* (1995) .. 6, 18

TABLE OF AUTHORITIES – Continued

Page

Bradley J. Nicholson, *The Ghost in the Machine: MAI Systems Corp. v. Peak Computer, Inc. and the Problem of Copying RAM*, 10:1 High Technology Law Journal 147 6

Carol G. Stovsky, *MAI Systems Corp. v. Peak Computer, Inc.: Using Copyright Law to Prohibit Unauthorized Use of Computer Software*, 56 Ohio L.J. 593 (1995) 5

The petitioners Southeastern Express Company, George Barnes, Gerry Wambolt and Kevin Clark ("Southeastern") respectfully pray that a writ of *certiorari* issue to review the judgment and opinion of the United States Court of Appeals for the Ninth Circuit, entered in the above-entitled proceeding on August 31, 1995. A timely petition for rehearing was denied on October 12, 1995.

OPINIONS BELOW

The opinion of the Court of Appeals for the Ninth Circuit is reported at 64 F.3d 1330 and is reprinted in the appendix attached at 1. The injunction of the United States District Court for the Northern District of California is reprinted in the appendix at 23. The Court of Appeals for the Ninth Circuit's Order denying Southeastern's Petition for Rehearing with Suggestion for Rehearing *En Banc* is reprinted in the appendix at 39.

JURISDICTION

Invoking jurisdiction under 28 U.S.C. Section 1331 and 1332, respondents brought this suit for copyright infringement in the Northern District of California. On March 15, 1995, after a jury verdict was returned in respondent's favor, the district court entered a preliminary injunction in favor of Triad, *see* appendix at 23.

The Ninth Circuit granted Southeastern's request for a stay pending appeal on April 20, 1995. The court affirmed the issuance of the preliminary injunction on

August 31, 1995, and denied Southeastern's Petition for Rehearing with Suggestion for Rehearing *En Banc* on October 12, 1995, *see* appendix at 39.

The jurisdiction of this Court to review the judgment of the Ninth Circuit is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

The statutes involved are 17 U.S.C. §§ 101, 107 and 117. They are set out verbatim in the appendix at 41.

STATEMENT OF THE CASE

Triad is a computer manufacturer that sells and services computers for use in auto parts stores and outlets. Excerpts of Record ("E.R."), filed in Ninth Circuit, May 15, 1995, at 464. Triad also authors and distributes with its computers software programs essential for the use, including maintenance, of the computers. *Id.* Because the Triad computer has a unique design, only Triad-manufactured software will run on Triad's computers. *Id.* at 224-5, 236, 302, 305. Triad "operating software" (operating system and utilities programs) is necessary both to run and maintain the Triad computer. *Id.* at 293-300, 347-9, 123.4-123.6, Trial Exhibit T380A, E.R. at 459. To maintain the Triad computer, like any computer, it is necessary to load the Triad operating software that the customer has licensed into the computer's RAM.

The software at issue is the Triad operating software delivered with the computer, and necessary both to run

and maintain the computer. This "operating software" consists of the operating system and related utilities programs, which, through an interrelated set of organizational, procedural, diagnostic, restorative and other software tools, enable the computer to run various applications. An illustrative functional analogy compares the operating system to the engine of a car, diagnostic utilities to a car's oil stick and dashboard indicators, and restorative utilities to the tire jack in a car's trunk.

For approximately 15 years, Triad sold its operating software and hardware outright to customers without any restriction on use, sale or transfer. In 1986, Triad began licensing its software to owners of Triad systems. *Id.* at 465, 155, 107. Under the current licensing scheme, the Triad computer owner pays a fee for the right to have and use the software, but Triad prohibits the owner from allowing anyone other than Triad or the owner's employees from running the software programs. *Id.* at 459, 465.

Southeastern is a small, independent computer service and maintenance organization founded in 1989 by former Triad employees. *Id.* at 263. Southeastern competes with Triad for the service of Triad computers. As a small company with few resources, Southeastern does not have the technical or financial resources to develop an alternative to one or more of Triad's 174 utilities programs. *Id.* at 216, 356-58. Even if Southeastern or another company had that capability, those programs could not be run without an operating system. *See id.* at 359.1. Like most maintainers, Southeastern has no desire or ability to enter into a manufacturing business (like the creation of

operating software) in order to compete in the service business.

Triad sued Southeastern for, among other things, copyright infringement in May 1992 based on Southeastern's alleged copying, such as back-up copies, of Triad operating software licensed to Southeastern's customers. Southeastern asserted the fair use and copyright misuse defenses, among others, and counterclaimed for antitrust violations. Triad's first motion for preliminary injunction was denied. Later, after *MAI Systems Corporation v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) was decided, Triad changed its theory of liability, and again moved for a preliminary injunction. The district judge refused to grant injunctive relief because the court found an issue of fact existed as to whether use of the operating software constituted a fair use under 17 U.S.C. § 107. *See Triad Systems Corporation v. Southeastern Express Co., et al.*, 64 F.3d 1330, 1334 (9th Cir. 1995). The district court expressed some doubt about *MAI*, although it indicated it was bound by *MAI*: "MAI has caused a lot of furor. It's a new concept. It's a far-reaching concept. And I think it will take a couple of years for the law to shake out and see where it stands and what defenses are available to it." Trial transcript at 2608.

Over Southeastern's objections, the district court bifurcated the trial, and held the trial on Triad's copyright infringement claim first. *See Triad*, 64 F.3d at 1334. The jury for phase one of the trial entered a verdict in favor of Triad. *Id.*

The district court's directed verdict in favor of Triad on the fair use defense, the district court entered an

injunction in Triad's favor on March 15, 1995. *Id.* The district court refused to stay the injunction pending the trial of phase two of the case, which precipitated the earlier-described proceedings in the Ninth Circuit.

This Court granted a stay of the injunction temporarily on October 20, 1995, and then lifted that stay on October 26, 1995. Southeastern is now seeking a writ of *certiorari*.

REASONS FOR GRANTING THE WRIT

Summary of Argument

The Ninth Circuit's opinion in *Triad Systems Corporation v. Southeastern* both depends on and extends the unprecedented decision in *MAI Systems Corporation v. Peak Computers*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994)[1], a case that has been repeatedly and harshly criticized by law review articles and legal treatises as a matter of both law and policy.[2] Under the Ninth

[1] Because the *MAI* case settled while a petition for *certiorari* was pending, this Court dismissed the petition without ruling on it.

[2] *See, e.g.*, Michael E. Johnson, *The Uncertain Future of Computer Software Users' Rights In The Aftermath of MAI Systems*, 44 Duke L.J. 327, 328 (1994) ("The MAI Systems case demonstrates how a series of legal determinations, each somewhat defensible as a mechanical application of statutory language and case law precedent, can yield a result that is plainly at odds with the policies behind the statutes it seeks to apply."); Carol G. Stovsky, *MAI Systems Corp. v. Peak Computer, Inc.: Using Copyright Law to Prohibit Unauthorized Use of Computer Software*, 56

Circuit's recent opinion, if a third party such as a maintenance company loads a computer owner's licensed software into the RAM of the computer owner's computer, this act creates a "copy" of the software that is not protected by the fair use doctrine and therefore constitutes copyright infringement. That decision is contrary to the public policies underlying the Copyright Act, which serves to secure public access to and enjoyment of creative works. It is also contrary to common sense, because the temporary electronic "copy" in RAM, which disappears when the computer is turned off, is not dissimilar to the "copy" of this document currently being made on the retina of the reader.

U.S. law has generally provided that the interests of copyright holders and the general public should be balanced. *See Twentieth Century Music Corp. v. Aiken*, 422 U.S.

Ohio L.J. 593 (1995) ("The Ninth Circuit's ruling permits software vendors to use copyright interests in their programs to control who uses the machine and in what capacity"); Trinnie Arriola, *Software Copyright Infringement Claims After MAI Systems v. Peak*, 69 Wash. L.Rev. 405 (1994) ("The MAI Systems court reached a flawed decision lacking any cogent rationale or supporting public policy"); Katrine Levin, *MAI v. Peak: Should Loading Operating System Software Into RAM Constitute Copyright Infringement?*, 24 Golden Gate U. L. Rev. 649, 682 ("The MAI decision has resulted in incongruous consequences that have puzzled and confused both the legal community and third-party maintenance providers"); Bradley J. Nicholson, *The Ghost in the Machine: MAI Systems Corp. v. Peak Computer, Inc. and the Problem of Copying RAM*, 10:1 High Technology Law Journal 147, 169 (1995) (*MAI* inhibits dissemination of works, contrary to copyright policy, because it allows restrictions on access and use based on copyright liability.") 2 Melville B. Nimmer, *Nimmer on Copyright*, § 8.08[B] at 8-113-114 and n. 38 and 39 (1995).

151, 156 (1975) ("Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.") An important way of balancing those interests has been to distinguish between use of a copyrighted work and proliferation of that work for sale. For example, an owner of a book may read or use that book without fear of a copyright infringement lawsuit, so long as the book is not copied. As long as copies of the book are not proliferated, the copyright holder's interests are protected.[3]

The *Triad* and *MAI* opinions, which contain no explicit consideration of the policies underlying the Copyright Act, ignore the effects the decision will have on the entire community of computer owners, users and maintainers. As in *Lotus Development Corporation v. Borland International, Inc.*, 49 F.3d 807 (1st Cir.), *cert. granted*, 64 U.S.L.W. 3238 (1995), the outcome of this case has far-reaching implications for competition and the proper role of copyright. At stake are copyright issues as important as those in *Lotus*, but not covered by that case. Furthermore, *Triad* directly contradicts the teaching of this Court in *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992), and is in conflict with a well-reasoned Fifth Circuit decision, *Vault Corporation v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988).

---

[3] An example from this case brings home this point. Triad has a copyright over both its software and printed user manuals. Southeastern uses both on a customer's behalf. However, Triad only sued Southeastern for use of the software programs, not use of the manuals.

The effect of the Ninth Circuit's decision in *Triad* is to prevent a lawful licensee of a computer program from authorizing anyone other than the manufacturer and the licensee's own employees from using the program even though no copies of the program are proliferated. This result is not in accordance with well-established principles of copyright law, and should be reversed.

This is not a case of a defendant copying computer programs onto disks and selling them in competition with the software maker. This case concerns a company that is authorized by the licensee of the computer program to utilize that program to fix the licensee's computer, just as the licensee himself is entitled to do. In simple terms, this case reduces to whose hands are on the keyboard. The Ninth Circuit's decision that such a use constitutes a "copy" for purposes of the Copyright Act, and that such a use is not a "fair use" under the Copyright Act, is far outside the realm of well-settled copyright jurisprudence. As one law review article noted, the Ninth Circuit " . . . inappropriately restricts rights that computer users have long taken for granted and fails to consider the practical effect on the computer industry." Arriola, *supra* at 405.[4] Another law review article recognizes the distinctions between applying copyright law to

---

[4] This observation demonstrates the hollowness of Triad's characterization of petitioners as "tax protesters." Triad Opposition to Southeastern's Application for Stay ("Stay Opposition"), filed October 24, 1995, at 8. Southeastern's president's statement that "I can't in my wildest dreams imagine having to pay to Triad or anybody else for going out and helping a customer fix his computer *with software that he rightfully has*" is in the mainstream of reaction to this unprecedented Ninth Circuit jurisprudence. *See* Trial transcript, Vol. 6, January 24, 1995, at 1365:22-24 (emphasis added).

print media and to software: "Copying, in this case [*MAI*], is not something distinct from access to and use of the work, it *is* access to and use of the work." Nicholson, *supra*, at 169.

The rights of computer software developers and those of computer software licensees have not yet been determined by this Court.[5] These and other issues concerning computer software are at the forefront of today's copyright jurisprudence, and should be addressed by this Court. *See Lotus v. Borland, supra.*

The law review articles discussing this issue have observed that "[a] software purchaser naturally expects to be allowed not only to run his software, but also to make backup copies and repairs, if necessary." Johnson, *supra*, at 343 (citing Final Report of National Commission on New Technological Uses of Copyrighted Works ("CONTU"), H.R. Rep No. 12207, 96th Cong., 2d Sess. pt.1. at 24); *see also* Joseph E. Hustein, Ruling Affects Rights of Support Contractors, Nat'l. L. J., June 21, 1993 at 34, 38 ("It has generally been taken for granted that the purchaser of a computer program was the owner of that copy and could make an archival backup copy and do other things owners can do, even if unauthorized or prohibited in the license agreement.")

The courts have also similarly found that a software user should have "the right to load it into a computer and to prepare archival copies of it to guard against destruction or damage by mechanical or electrical failure." *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 266 n.24 (5th Cir. 1988).

[5] Triad's suggestion that this Court's decision last term in *Campbell v. Acuff-Rose Music, Inc.*, 114 S. Ct. 1164 (1994), a fair use case about a parody of a song, settles the issue in the context of computer software is frivolous. *See* Stay Opposition at 17.

Similarly frivolous is Triad's *ad hominem* attack, which Southeastern has documented as false, in the Stay opposition at 8-9. *See* Appellant's Reply Brief in Ninth Circuit, filed June 9, 1995, at 2-5.

I. *Certiorari* should be granted to review the question of whether loading a computer software program into the computer's RAM constitutes a "copy" under the Copyright Act.

An analysis of the Ninth Circuit's decision in *Triad* also requires an analysis of *MAI Systems Corporation v. Peak Computers*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994). The *MAI* court held that loading software into a computer's random access memory ("RAM"), which occurs during the ordinary use of a computer, creates a "copy" for purposes of the Copyright Act.[6]

MAI, a computer manufacturer, sued Peak, a third-party maintenance company, for copyright infringement based on Peak's alleged use of the operating system in repairing MAI computers. The district judge entered a permanent injunction in MAI's favor, which Peak appealed to the Ninth Circuit.

---

[6] Triad argued in its opposition to Southeastern's application for stay that this Court cannot address *MAI* in the context of the *Triad* opinion. Stay Opposition at 15. This position has no basis in the law. In fact, this Court regularly grants *certiorari* to review decisions grounded on circuit precedents that have been challenged by an appellant. In *Gutierrez de Martinez v. Lamagno*, 115 S. Ct. 2227, 2230 (1995), the Court reversed a summary affirmance of a district court opinion that had been based on Fourth Circuit precedent, rejecting the reasoning of the precedent case. This Court had *denied certiorari* for the Fourth Circuit precedent case only two years earlier, whereas the *MAI* petition for *certiorari* was simply dismissed upon settlement by the parties. Accordingly, *MAI* is a more likely candidate for review than was the precedent in *Gutierrez*.

The basic issue before the Ninth Circuit was whether a "copy" of the operating system was made. In considering the issue, the court looked to the statutes in the Copyright Act defining "copies." 17 U.S.C. § 101 provides that "copies" are:

> *material objects*, other than phonorecords, in which a work is *fixed* by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a device.

(emphasis added).[7] An accompanying provision explains the meaning of "fixed."

> A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated *for a period of more than transitory duration*.

17 U.S.C. § 101 (emphasis added). The court of appeals rejected Peak's argument that the loading of the operating system into the computer's RAM does not constitute a "copy" under the Copyright Act because it is not "fixed" within the meaning of the Act.

The Ninth Circuit also relied on a district court decision in determining whether a copy in RAM is sufficiently "fixed" as to constitute a "copy" for purposes of the Copyright Act. *Apple Computer, Inc. v. Formula Int'l,*

---

[7] One argument the Ninth Circuit did not consider is that electronic copies in no way qualify as "material objects."

Inc., 562 F. Supp. 775 (C.D. Cal. 1983), *aff'd*, 725 F.2d 521 (9th Cir. 1984). In *Apple Computer*, the holding was that the copying of software onto a silicon chip was not an " 'essential step' in the utilization of the software because the software could be used through RAM without making a permanent copy." *MAI*, 991 F.2d at 519.

> RAM can be simply defined as a computer component in which data and computer programs can be temporarily recorded. Thus, the purchaser of [software] desiring to utilize all of the programs on the diskette could arrange to copy [the software] into RAM. *This would only be a temporary fixation. It is a property of RAM that when the computer is turned off, the copy of the program recorded in RAM is lost.*

Id. (quoting *Apple Computer*, 562 F. Supp. at 622).

The Ninth Circuit acknowledged that its decision was unprecedented and problematic: "We recognize that these authorities are somewhat troubling since they do not specify that a copy is created regardless of whether the software is loaded into the RAM, the hard disk or the read only memory ('ROM')." *Id.* Of course, the copies created when software is loaded into hard disks or ROM are permanent, unlike "copies" loaded into RAM. *See* Nicholson, *supra*, at 152.

The *MAI* decision ignored the plain language of the Copyright Act. First, under the court's own analysis, a "copy" of the operating system is not made by merely turning on the machine, thereby loading the operating system into the computer's RAM. In order to constitute a copy, something must be "fixed," which means that it must be "sufficiently permanent" for "a period of more

than transitory duration." 17 U.S.C. § 101. Because the operating system loaded into RAM is only there for a short period of time, and is automatically erased when the computer is turned off, the "copy" is not "permanent;" it is "transitory."

The very language the court of appeals quoted from the *Apple Computer* decision supports this reading of the statute. The *Apple Computer* court found that the loading of a computer program into RAM is only a "temporary fixation." Curiously, the court of appeals cites the *Apple Computer* decision in support of its decision that loading a program into RAM constitutes a "copy." Indeed, the court of appeals itself recognizes that "the software [at issue in *Apple Computer*] could be used through RAM *without making a permanent copy.*" *Id.*, at 519 (emphasis added).

The *Triad* court considered *MAI* and its effect in reaching its conclusion. Early during oral argument, one of the judges asked counsel for Southeastern: "How do you deal with *MAI*?" Transcript of Ninth Circuit hearing, July 14, 1995, at 18.[8] Counsel for Southeastern noted the many law review articles that had criticized *MAI*, and filed them, with the permission of the panel, for the panel's review. *See* Letter from Ronald S. Katz to Ninth Circuit Clerk of Court (July 14, 1995). At the end of the argument, one of the judges commented: "We're pretty well stuck with *MAI*." *Id.* at 60. Counsel for Triad also raised the issue at the hearing, stating: "I think it is a

---

[8] The hearing before the Ninth Circuit was tape recorded. Southeastern had the tape transcribed.

good idea to start the analysis of this case with MAI, because that's also what MAI was about." *Id.* at 38.

The *Triad* court's written decision also reflects consideration of the *MAI* issue. The panel held that "[i]t is clear that Southeastern's activities are "copying" for purposes of the Copyright Act." *Triad*, 64 F.3d at 1335 (citing *MAI*, 991 F.2d at 519).[9]

II. This Court should grant *certiorari* to resolve a split in the circuits regarding the interpretation of 17 U.S.C. § 117.

Under the Copyright Act, the owner of a copyright in a computer program has the exclusive right to reproduce the work and distribute it to the public. 17 U.S.C. § 106. The succeeding sections of the Copyright Act (sections 107 through 118) put limitations on a copyright owner's exclusive rights. Section 117 of the Copyright Act provides:

> . . . it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an *essential step in the utilization of the computer program*, or

---

[9] In its Stay Opposition at 15-16, Triad argued that the *MAI* issue was not raised below either in the briefs or during oral argument. The above analysis demonstrates that the issue was raised and decided below. Moreover, even if this Court finds that the issue was not expressly raised, if the lower court actually passes on an issue, a petition for *certiorari* may properly present the question to this Court. *Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1098 n.8 (1991).

> (2) that such new copy or adaptation is for *archival purposes only* and that all archival copies are destroyed *in the event that continued possession of the computer program should cease to be rightful*. . . .

(emphasis added).

The Ninth Circuit has interpreted the phrase "owner of a copy" to mean either the copyright holder or a person who purchased a copy of the program outright. *See MAI*, 991 F.2d at 518 n.5; *Triad*, 64 F.3d at 1333. The Fifth Circuit has reached the opposite conclusion, namely, that Section 117 applies to a licensee of a copy of a computer program. *See Vault*, 847 F.2d at 257-259. Review is necessary to resolve this conflict in the circuits.

The Court in *MAI* found, without analysis, that "[s]ince MAI licensed its software, the Peak customers do not qualify as 'owners' of the software and are not eligible for protection under § 117." *MAI*, 991 F.2d at 518 n.5. The *Triad* court reached a similar result. It held that only those companies that had purchased their software outright were entitled to protection under 117. *Triad*, 64 F.3d at 1333. Those who licensed the software were not afforded that protection.[10]

---

[10] Triad argued in its opposition to Southeastern's Application for Stay in this Court that Section 117 was not raised below. Stay Opposition at 16. To the contrary, Southeastern raised the issue both in its briefs and during oral argument. Southeastern argued that "there is no sound public policy reason for distinguishing between 'owners' and 'lawful possessors' of software." Appellant's brief at 21-22 n.14. Southeastern's also argued that Triad's licensing scheme was merely an attempt to avoid the rights Section 117 was intended to confer on computer

Since almost all software is technically licensed, and not sold, this reading of Section 117 essentially renders that section meaningless. Using the *MAI* court's reading, only the copyright owner can qualify as an owner of a copy. A copyright owner obviously does not need to be afforded protections to use of make back-up copies of his or her own work. Also the "owner" language in the first paragraph of Section 117 must be read in conjunction with the second part of the same section's reference to rightful possession of the computer program. 17 U.S.C. § 117(2). Moreover, the Ninth Circuit's interpretation allows the software writer the opportunity to award the protections Congress intended to software users simply by labelling the sale of software a license.

The Ninth Circuit's rigid interpretation of Section 117 conflicts with the Fifth Circuit's thoughtful interpretation. In *Vault v. Quaid*, the Fifth Circuit held "Section 117 of the Copyright Act limits a copyright owner's exclusive rights under § 106 by permitting an owner of a computer program to make certain copies of that program without obtaining permission from the program's copyright owner." *Vault*, 847 F.2d at 259. The court applied Section

---

users, and that endorsing attempts to avoid the computer user's statutory rights renders Section 117 meaningless. Appellant's brief at 34-35; Appellant's reply brief at 8.

Moreover, during oral argument, counsel for Southeastern argued: "I have to admit that MAI disagrees with [Southeastern's view on § 117.] So because MAI disagrees with that, either the Court will have to deal with MAI in some way or just say MAI was incomplete because it doesn't go to the fair use issue. So I think we should win on 117 . . . ."

117 even though the software program at issue was subject to a license agreement. *Id.* at 257 n.2.

In reaching its conclusion, the Fifth Circuit examined the history of Section 117, including the report Congress commissioned by the National Commission on New Technological Uses of Copyrighted Works ("CONTU") in the late 1970s. H.R.Rep. No. 12207, 96th Cong., 2d Sess. pt.1 (July 31, 1978). The Fifth Circuit recognized that the CONTU Report "acknowledg[ed] the importance of balancing the interest of proprietors in obtaining 'reasonable protection' against the risk of 'unduly burdening users of programs and the general public. . . . ' " *Vault*, 897 F.2d at 259. The CONTU Report recommended that "[o]ne who rightfully possesses a copy of a program . . . should be provided with a legal right to copy it to that extent which will permit its use by the possessor." *Id.* at 260 (quoting CONTU Report at 31).

The CONTU Commission recommended the enactment of what is Section 117 today. The only difference between what the CONTU Report recommended and what Congress enacted is that the CONTU language contained the term "rightful possessor," while the statute Congress enacted contains the word "owner." The legislative history gives no explanation for the change, *see* Arriola, *supra*, at 412, and rightful possession remains the relevant concept in the second part of Section 117.

The Ninth Circuit's hyper-technical and rigid reading of Section 117 causes this unlikely scenario: If Section 117 does not apply to licensees of a copy of software, it will rarely apply to anyone who possesses a copy of computer software. Most computer manufacturers do not sell to

computer owners the operating software necessary to run their machines; the software is almost always licensed. *See* Arriola, *supra*, at 423 & n.137. If licensees do not qualify as "owners of a copy," they will not be afforded the protections that the CONTU Commission intended them to have, and that Congress likely intended them to have (although this is not now ascertainable). Indeed, the result contravenes precedent set by this court.[11]

The well-respected copyright law treatise *Nimmer on Copyright* also finds the Ninth Circuit's reading of Section 117 incorrect. Nimmer criticizes the Ninth Circuit for "[f]ailing to distinguish between copyright ownership and ownership of a copy of the subject work . . . ," and finds the Ninth Circuit's logic "inadequate." 2 Melville B. Nimmer, *Nimmer on Copyright*, § 8.08[B] at 8-113-14.

III. The *Triad* court's decision rejecting the fair use defense conflicts with this Court's holding in *Kodak*.

The Ninth Circuit's decision in *Triad* principally addressed the issue of fair use in the context of *MAI* copying. The court of appeals found that Triad's copyrighted software could be used to extend Triad's control over the service market. The court held that "Triad invented, developed, and marketed its software to enable

---

[11] *See Straus v. Victor Talking Machine Co.*, 243 U.S. 490, 501 (1917) (invalidated licensing scheme, and held that the transaction, which purported to be a license, was in fact a sale)); *see also Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8, 25 (1918) (court found transaction involving a license to be a sale).

its customers and its own technicians to service Triad computers. Southeastern is getting a *free ride* when it uses that software to perform precisely the same service." *Id.* (emphasis added). This holding essentially forces independent companies like Southeastern to enter two markets at once: the market for service of a certain brand of computer as well as the market for software necessary to run and maintain that computer.[12]

Such a result is expressly prohibited by this Court's decision in *Kodak, supra,* which specifically held that independent service companies need not enter two markets in order to compete in one of them: "one of the evils proscribed by the antitrust laws is the creation of entry barriers to potential competitors by requiring them to enter two markets simultaneously." *Kodak,* 504 U.S. at 485. This evil is not trivial, because this Court recognized the "magnitude of the service business." *Id.* at 462 n.6.

Indeed, the Supreme Court flatly rejected Kodak's position that the independent service organizations were

---

[12] In its opposition to Southeastern's application for stay, Triad took the position that its purported willingness to offer Southeastern a license solves this problem. Stay Opposition at 7-8. That position misses the point: if this is a fair use, which it clearly is, then no license is or should be necessary. This "willingness," in any event, was a ploy: no specific offer was ever made, and the topic was not even brought up until after the litigation was brought. Even if an offer had been made, it could be made uneconomic with the stroke of a pen. Southeastern steadfastly maintains that it is untenable to be licensed by a competitor bent on its destruction. Licensing of competition is hardly what made this country an economic leader.

exploiting the investment Kodak made in product development. *Id.* at 485. The Court held that "[t]his understanding of *free-riding* has no support in our caselaw." *Id.* (emphasis added) The Ninth Circuit's opinion in *Triad* makes the exact same mistake that Kodak made and that this Court rejected.

The Ninth Circuit's reasoning essentially ignores the benefits that competition in the service business provides. The court of appeals stated that "we detect no appreciable public benefit arising from Southeastern's practice to justify this continuance under the fair use doctrine." *Triad,* 64 F.3d at 1336. This is directly contrary to this Court's view in *Kodak*: "the development of the entire high-technology service industry is evidence of the efficiency of a separate market for service." *Kodak,* 504 U.S. at 462.

The *Triad* court ignored the fact that Southeastern offered owners of Triad computers a choice of whom to use for maintenance of their computers. Likewise, the court ignored the obvious result of its decision: owners of Triad computers will have no choice but to use Triad for service. Triad will have *de facto* been granted a judicial patent.

This result undermines the purpose of the Copyright Act, which is that the general public should benefit from use of copyrighted works. *See Twentieth Century,* 422 U.S. at 156. Under the Ninth Circuit's ruling, software licensees are prevented from freely using the programs which they licensed, even when that use does not result in proliferation of copies of the program.

The result of the *Triad* court's decision is that Triad would receive a windfall from customers choosing to retain independent service organizations: one license fee from the customer and one license fee from an independent service company for the same purpose – to make the computer run with programs delivered for that purpose. The computer users who utilize ISOs like Southeastern for service are thereby forced to license utilities for which they have no use. *See* Arriola, *supra* at 421.

Triad claims that sales or licenses to service companies like Southeastern are diminished by Southeastern's use, but this argument is disingenuous. First, no such company has ever licensed the software in twenty years, E.R. at 157, 211, 309-10, and Southeastern will not license the software because it is not economic. If the operating software is useful to maintenance companies like Southeastern, then Triad could have no possible justification for licensing it to the computer purchaser that uses a service company like Southeastern because in that case the customer would have no use for the operating software. What Triad is doing is obvious – forcing the customer to use Triad for maintenance. Such patent-like protection cannot and should not emanate from a copyright.

Southeastern's use of the operating software licensed by the Triad computer purchaser does not supplant any sales or licensing of that software. The customer has already licensed it so that his computer can be maintained. Southeastern is using it on behalf of the customer for the purpose of selling maintenance, not selling operating software. The use of the operating software is solely to help the computer user use his licensed software and

does not supplant sales or licenses of the operating software. Such use is analogous to an independent car mechanic using the car owner's jack to repair a flat tire.

Under *Kodak*, Southeastern should not have to create a whole new software program in order to compete with Triad in the service market. This is especially true when Southeastern is not copying Triad's software and selling it. Southeastern is merely using the software that the computer owner rightfully possesses, and for which the owner already has paid the applicable license fee, in order to keep the customer's computer running. Such maintenance is essential to the use of the computer.

The Ninth Circuit also failed to address Southeastern's argument that the nature of the work (computer software) and the character of the use (unfixed electronic "copies" in RAM that do not result in the proliferation and distribution of any additional copies) require special consideration, and in this case weigh in favor of finding fair use. Southeastern neither sells nor provides a copy of the software; Southeastern, like any other consultant, sells only its labor, experience and skill to assist in the computer owner's use of what he already possesses and has paid for, and has been invited by the copyright holder to use. The Ninth Circuit, however, ruled against fair use because the use was commercial and was not intermediate to the creation of a new copyrightable work. This elevates form over substance: the critical question is whether Southeastern usurps the market for Triad's software. In this case, involving a new kind of temporary, electronic "copying" incidental to the normal use of a work, traditional indicators of market usurpation (i.e.,

commercial, non-transformative) simply have no predictive value.

CONCLUSION

This case raises a timely and important question: whether the providers of consulting and repair services, like Southeastern, may operate their client's computers during the course of their work (thereby loading the client's software into RAM) – or whether the copyright laws allow the writers of software effectively to monopolize these services by prohibiting computer owners from authorizing others to make these temporary, electronic "copies" on their behalf. Conferring the copyright holder with such power over the copyrighted work and the associated computer hardware contravenes the purposes of the Copyright Act and, indeed, the entire federal framework for intellectual property protection.

If the Ninth Circuit's interpretation of copyright law is permitted to stand, all independent contractors who use, consult on, or fix computer will risk liability as software "thieves" simply by using software for its intended purpose on behalf of those who lawfully possess the software. Moreover, all computer owners risk copyright liability for doing no more than having someone help them use, fix, or learn about their computer.

The use of a copyrighted work in question in this case is not copyright infringement because it is temporary and does not involve proliferation. Moreover, it is the only way to gain access to the copyrighted work. If such

use is to be deemed "copying" under the copyright laws, that use must be deemed fair, or protected by Section 117. Southeastern respectfully requests that this Court grant its petition for *certiorari* in order to rule on these important questions. The high-technology sector of this country needs guidance from this honorable court now, before the Ninth Circuit's misguided jurisprudence distorts efficiencies in that sector.

Respectfully Submitted,

RONALD S. KATZ*
ROBERT A. CHRISTOPHER
RICHARD A. JONES
JANET ARNOLD HART
COUDERT BROTHERS
4 Embarcadero Center
Suite 3300
San Francisco, CA 94111
Telephone: (415) 986-1300

*Counsel of Record

Counsel for Petitioners
Southeastern Express Co., et al.

Dated: November 22, 1995

TRIAD SYSTEMS CORPORATION, a California corporation, Plaintiff,

and

Jeffrey J. Lederman; Michael J. Madison, Plaintiffs-Appellants,

v.

SOUTHEASTERN EXPRESS COMPANY, a Georgia de facto partnership, dba Southeastern Brokerage Company and dba Southeastern Systems, Defendants-Appellees.

TRIAD SYSTEMS CORPORATION, a California corporation, Plaintiff-Appellee,

v.

SOUTHEASTERN EXPRESS COMPANY, a Georgia de facto partnership, dba Southeastern Brokerage Company and dba Southeastern Systems; Southeastern Express Systems, Inc., a Georgia corporation; George Barnes, an individual; Kevin Clar, an individual; and Gerry Wambolt, an individual, Defendants-Appellants.

Nos. 94-15818, 95-15552.

United States Court of Appeals, Ninth Circuit.

Argued and Submitted July 14, 1995.

Decided Aug. 31, 1995.

Hardware and software producer brought copyright infringement action against independent service organization (ISO) related to ISO's servicing of plaintiff's computer systems. The United States District Court for the

Northern District of California, Fern M. Smith, J., granted preliminary injunction against defendant upon finding of infringement. Defendant appealed injunction, and plaintiff's attorneys appealed imposition of Rule 11 sanctions, and appeals were consolidated. The Court of Appeals, Sneed, Circuit Judge, held that: (1) plaintiff showed likelihood of success on infringement claims; (2) finding that ISO was not likely to succeed on antitrust defense was not clearly erroneous; (3) fair use doctrine was not applicable; (4) copyright protection extended to service market; (5) copyright misuse defense did not apply; (6) injunction was not overbroad; (7) bifurcation of trial was not abuse of discretion; and (8) attorneys who did not sign declaration could not be sanctioned for its contents under Rule 11 then in effect.

Affirmed in part and reversed in part.

Mary A. Lehman, Gray Cary Ware & Freidenrich, San Diego, CA, for plaintiffs-appellants.

Daniel M. Wall, Charles S. Crompton, III, McCutchen, Doyle, Brown & Enersen, San Francisco, CA, for plaintiff-appellee.

Ronald S. Katz, Robert A. Christopher, Richard A. Jones, Coudert Brothers, San Jose, CA, for defendants-appellees, defendants-appellants.

Appeals from the United States District Court for the Northern District of California.

Before: SNEED, CANBY, and FERNANDEZ, Circuit Judges.

SNEED, Circuit Judge:

Southeastern Express Company ("Southeastern") appeals the district court's grant of a preliminary injunction in favor of Triad Systems Corporation ("Triad"). The injunction followed a finding that Southeastern was infringing on Triad's software copyrights.[1] The terms of the injunction substantially prohibit Southeastern from servicing Triad computer systems. In a consolidated appeal, two of Triad's attorneys, Jeffrey Lederman and Michael Madison ("Lederman and Madison"), appeal the imposition of Rule 11 sanctions against them for filing a misleading declaration in support of Triad's motion for injunctive relief.

For the reasons discussed below, we affirm the grant of the preliminary injunction against Southeastern and reverse the imposition of Rule 11 sanctions against Lederman and Madison.

I.

FACTS AND PROCEEDINGS BELOW

Triad manufactures computers for use by automotive parts stores and designs, sells, and licenses unique software to run its computers. The computer systems enable customers in the automotive parts industry to automate

---

[1] Southeastern also attempts to raise several issues regarding Phase One of the trial in this case; however, because the trial is still underway and no final judgment has been entered, see Appellants' Excerpts of Record ("E.R.") at 134, these issues are premature and not properly before this court on appeal. *See* Fed.R.Civ.Proc. 54(b); *Williams v. St. Louis Diecasting Corp.*, 611 F.2d 1223 (8th Cir.1979).

their sales, inventory, and accounting tasks. Southeastern is what is known as an independent service organization ("ISO") that services Triad computers.[2] Southeastern and Triad thus compete for the business of servicing and maintaining Triad computers. The crux of Triad's complaint is that Southeastern has infringed on its software copyrights and continues to do so by performing maintenance on Triad computer systems for Triad's licensees.

Triad's copyrighted software includes: (1) operating system software, which is necessary to run any other program on the computer ("OS software"); (2) applications software, which performs the basic functions like accounting and invoicing for the Triad customer; and (3) utilities, diagnostic, and auxiliary software, which is used by technicians to repair Triad software and hardware ("service software"). The OS software and the service software are involved in this dispute.

Triad software customers are subject to three different contractual arrangements. From 1976 to 1985, Triad sold its software outright to customers ("Regime 1"). Because Regime 1 customers own their software, they have rights under the Copyright Act to make or authorize the making of copies in the operation of their computers.[3] As a result, such copies are noninfringing, even if they

---

[2] Southeastern also deals in used Triad computers and replacement parts; however, these activities are not at issue on this appeal. The district court granted summary judgment in favor of Triad on Southeastern's claims of tying and monopolization with respect to the spare parts market. E.R. at 100-07.

[3] *See* 17 U.S.C.§ 117.

are made by Southeastern in the course of servicing Regime 1 customers' computers. Triad therefore concedes that Southeastern cannot be barred from making use of software owned by Regime 1 customers.

In 1986, however, Triad began licensing rather than selling its software ("Regime 2"). Under Regime 2 agreements, customers may not duplicate the software or allow it to be used by third parties. In 1991, Triad added a requirement that licensees selling their computer systems pay Triad a license transfer fee ("Regime 3"). Thus, Southeastern's performance of service and maintenance on the computer systems of Regime 2 and 3 customers is at issue. At stake is the business of servicing these systems.

In order to service a Triad computer, the Southeastern technician uses the OS software and the service software in the Triad customer's possession. Triad argues that Southeastern has infringed its software copyrights because copies of the software are made in the computer's random access memory (RAM) when the computer is in use.[4]

Triad filed suit against Southeastern in federal district court in April 1992. A year later, while discovery was ongoing, this Circuit decided *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir.1993), *cert. dismissed*,

---

[4] Servicing of the computers can also involve other forms of copying: OS software and service software are sometimes copied onto the hard drive in the first instance, and thereafter booted up in RAM, and Southeastern technicians also make backup copies for customers by copying programs off the hard drives onto tapes. *See* E.R. at 79-81.

___ U.S. ___, 114 S.Ct. 671, 126 L.Ed.2d 640 (1994). There we held that the loading of MAI's operating system software into RAM makes a "copy" under the Copyright Act, and that therefore Peak, an ISO, had infringed MAI's copyright by operating its customers' MAI computers in order to service them.[5]

Following the MAI decision, Triad understandably moved for summary judgment on its copyright infringement claim. Southeastern moved for summary judgment on its fair use and copyright misuse defenses. Both motions were denied.[6] The district court ordered that the trial be bifurcated: Phase One would include Triad's copyright infringement claims, damages, and Southeastern's fair use defense; Phase Two would include Southeastern's copyright misuse defense and any remaining counterclaims.

Phase One proceeded before a jury on January 12, 1995. At the close of the evidence, the district court granted directed verdicts in favor of Triad on Southeastern's fair use defense to infringement of both the OS software and the service software. Then, on February 3, the jury found that Southeastern had infringed Triad's software copyrights.

---

[5] Peak did not raise a fair use defense, so the issue is not discussed in the MAI opinion.

[6] Both parties also sought preliminary injunctions at that time, which were likewise denied.

On March 15, 1995, the district court granted Triad's motion for a preliminary injunction.[7] This was a long step forward for Triad. In essence, the injunction bars Southeastern from performing service or maintenance on Triad computer systems that contain licensed software.[8] Under the terms of the injunction, the onus is on Southeastern to determine whether a particular customer's software is subject to a Regime 2 or 3 license agreement. Triad, however, is obligated to provide the license agreement upon the customer's written request; if it fails to do so within ten business days, Southeastern may service the customer's computer without violating the injunction.

A panel of this court stayed the injunction pending this appeal. While Phase Two of the trial remains in progress, on June 8, 1995, the district court granted summary judgment in favor of Triad on Southeastern's copyright misuse claim. Only a few remaining claims are as yet unresolved.

Southeastern timely appeals the preliminary injunction. This court has jurisdiction pursuant to 28 U.S.C. § 1292(a)(1).

---

[7] Injunctive relief is specifically authorized by the Copyright Act, 17 U.S.C. § 502.

[8] It also bars Southeastern from distributing licensed Triad software in the course of selling used Triad computer systems and from performing any hardware upgrades on Triad computer systems that contain licensed software.

II.

DISCUSSION

A. *Preliminary Injunction*

Southeastern, attacking the preliminary injunction in several ways, argues that (1) Triad cannot show the possibility of irreparable injury, (2) Triad cannot show the likelihood of success on the merits because of Southeastern's meritorious affirmative defenses, (3) the preliminary injunction is too broad and will harm Southeastern, and (4) the district court erred in bifurcating the trial.

A district court's order granting preliminary injunctive relief is subject to limited review: It will be reversed only where the district court abused its discretion or based its decision on an erroneous legal standard or on clearly erroneous findings of fact. *Miller v. California Pac. Medical Ctr.*, 19 F.3d 449, 455 (9th Cir.1994) (en banc).

To obtain a preliminary injunction in this case, Triad must show a likelihood of success on the merits of its copyright infringement action and the possibility of irreparable injury. *See Oakland Tribune, Inc. v. Chronicle Publishing Co.*, 762 F.2d 1374, 1376 (9th Cir.1985) (quoting *Apple Computer, Inc. v. Formula Int'l, Inc.*, 725 F.2d 521, 523 (9th Cir.1984)).

1. *Irreparable Injury.*

Southeastern first argues that Triad cannot show a threat of irreparable injury sufficient to merit injunctive relief. Southeastern, mindful of the economic stakes involved, argues that Triad will suffer only monetary

damages from lost revenues, which are not usually considered irreparable harm because of the availability of an adequate legal remedy. *Los Angeles Memorial Coliseum Comm'n v. National Football League*, 634 F.2d 1197, 1202 (9th Cir.1980).

In a copyright infringement action, however, the rules are somewhat different. A showing of a reasonable likelihood of success on the merits raises a *presumption* of irreparable harm. *Johnson Controls, Inc. v. Phoenix Control Sys., Inc.*, 886 F.2d 1173, 1174 (9th Cir.1989).[9] The cases to the contrary cited by Southeastern are not controlling and are distinguishable.[10] Thus, Triad need only show a

---

[9] "A copyright plaintiff who makes out a prima facie case of infringement is entitled to a preliminary injunction without a detailed showing of irreparable harm." *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1254 (3d Cir.1983), *cert. dismissed*, 464 U.S. 1033, 104 S.Ct. 690, 79 L.Ed.2d 158 (1984); *see also Rent-A-Center, Inc. v. Canyon Television & Appliance Rental, Inc.*, 944 F.2d 597, 603 (9th Cir.1991) (holding that intangible injuries, such as damage to advertising efforts and goodwill, can be irreparable harm for purpose of a preliminary injunction).

[10] The case most on point is *Belushi v. Woodward*, 598 F.Supp. 36 (D.D.C.1984). There, the plaintiff sought a preliminary injunction to prevent sale of a book that contained her copyrighted photograph. The court denied a preliminary injunction despite the plaintiff's likelihood of success on the merits, reasoning that the potential harm to defendants from preventing sale of the book was greater than the harm to plaintiff from allowing its sale, that the legal remedy would be adequate, and that the public interest in free expression weighed against injunctive relief. *Id.* at 37. Here, there is no compelling free speech interest; as the *Belushi* court noted, "If this were a case in which relief would enjoin the distribution of an average commercial product, [such] relief would not be so drastic." *Id.*

reasonable likelihood of success on its copyright infringement claim to support the district court's grant of the preliminary injunction. *Id.*

2. *Likelihood of Success on the Merits.*

To make its required showing of copyright infringement, Triad must prove (1) ownership of the copyrights and (2) copying of an expression protected by those copyrights. *Johnson Controls*, 886 F.2d at 1175. Triad has shown both. Its ownership of valid copyrights is apparently not in dispute; Triad has produced certificates of registration,[11] which raise a presumption of the validity of Triad's copyrights in its software. 17 U.S.C. § 410(c).

Triad, to show that Southeastern made copies of its protected works, relies on the *MAI* decision. It is clear

---

Moreover, the *entire* software programs at issue are infringing, as compared to a single photograph out of an entire book, and thus the injunction here does not substantially impinge on legitimate, noninfringing activity.

Southeastern's other citations are less pertinent. *See LucasArts Entertainment Co. v. Humongous Entertainment Co.*, 815 F.Supp. 332, 334, 337 (N.D.Cal.1993) (denying a preliminary injunction because plaintiff failed to show a likelihood of success on its copyright infringement claim); *Love v. Kwitny*, 772 F.Supp. 1367, 1375 (S.D.N.Y.1991) (denying a *permanent* injunction where the infringement was minimal and the "injurious consequences to Love's copyright from continued circulation of Kwitny's book [were], if anything, 'trifling.' "), *aff'd*, 963 F.2d 1521 (2d Cir.), *cert. denied*, ___ U.S. ___, 113 S.Ct. 181, 121 L.Ed.2d 127 (1992).

[11] *See* Appellee's Supplemental Excerpts of Record ("S.R.") at 364-439.

that Southeastern's activities are "copying" for purposes of the Copyright Act. *MAI*, 991 F.2d at 519. Because Southeastern's service activities involved copying entire programs, there is no doubt that protected elements of the software were copied. *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1525 (9th Cir.1992). Therefore, Triad has shown a likelihood of success as to its prima facie case.

3. *Fair Use.*[12]

Southeastern argues that, despite Triad's carrying its burden, the preliminary injunction was improper because the district court failed to consider adequately its affirmative defenses of fair use and copyright misuse.[13] Because

---

[12] This issue reaches us in a rather strange posture: Before the district court issued the preliminary injunction, it substantially had decided the fair use issue in favor of Triad by granting it a directed verdict during Phase One of the trial. As a result, Southeastern faces great adverse odds in attempting to argue that Triad cannot show the likelihood of success on the merits. Nonetheless, we proceed to examine the fair use issue to show that the district court did not commit reversible error in its analysis of Southeastern's fair use defense in deciding to issue the preliminary injunction.

Southeastern also tries to argue that the district court erred in granting a directed verdict in favor of Triad on the fair use issue. However, that issue is not properly before the court at this time because the case has not yet reached a final judgment. *See* Fed.R.Civ.Proc. 54(b); *Williams*, 611 F.2d 1223.

[13] Southeastern also argues that the district court erred by failing to consider its antitrust counterclaims in its decision to issue the preliminary injunction. It appears, however, that the district court was not even obliged to consider such counter-

those defenses are clearly meritorious, Southeastern asserts, Triad cannot show that it is likely to succeed on the merits. *See Gould v. Lambert Excavating, Inc.*, 870 F.2d 1214, 1218 (7th Cir.1989).

We agree with the district court that the doctrine of fair use does not apply given the facts of this case. "The doctrine of fair use allows a holder of the privilege to use copyrighted material in a reasonable manner without the consent of the copyright owner." *Narell v. Freeman*, 872 F.2d 907, 913 (9th Cir.1989) (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 549, 105 S.Ct. 2218, 2224-25, 85 L.Ed.2d 588 (1985)); *see* 17 U.S.C. § 107.[14]

---

claims once Triad showed the likelihood of success on its copyright infringement claim. *See Helene Curtis Indus. v. Church & Dwight Co.*, 560 F.2d 1325, 1335 (7th Cir.1977) (affirming grant of preliminary injunction upon plaintiff's showing of likelihood of success on trademark infringement claim and rejecting defendant's argument that its antitrust counterclaims should have precluded injunction; "antitrust violations are not a general defense to a trademark infringement claim"), *cert. denied*, 434 U.S. 1070, 98 S.Ct. 1252, 55 L.Ed.2d 772 (1978). Even assuming the district court should have considered them, however, Southeastern cannot prevail. The district court explicitly found that the antitrust counterclaims were not likely to succeed on the merits when it rejected Southeastern's motion for a preliminary injunction. *See* E.R. at 108-17. The district court's findings are neither clearly erroneous nor based on an erroneous legal standard. *Miller*, 19 F.3d at 455.

[14] The Copyright Act sets out four factors for determining whether a use is a fair use:

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;

Southeastern relies on the rationale of *Sega v. Accolade, supra,* to find that its service activities are a fair use of Triad's copyrighted software.

Sega, however, was a very different case. There, the defendant, Accolade, had made copies of Sega's video game programs in the process of reverse-engineering them solely in order to figure out the requirements for compatibility with Sega's "Genesis" game console. The functional requirements of compatibility were not protected by copyright, and there was no other method available to Accolade to discover those requirements. 977 F.2d at 1522. This court held that the copying at issue was a fair use. We determined (1) that Accolade had made the copies "for a legitimate, essentially non-exploitative purpose," that is, determining the compatibility requirements; (2) that the copying resulted in the proliferation of independent, creative expression, by making Accolade game programs compatible with the Sega Genesis system, an outcome the Copyright Act was intended to promote; and (3) that the copying neither adversely affected the market for Sega's own video games, nor pirated those games, but only used the unprotected elements needed to make its own games compatible. *Id.* at 1523.

Southeastern's activities are wholly unlike the reverse-engineering in *Sega.* Southeastern did not make a

---

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107.

minimal use of Triad's programs solely to achieve compatibility with Triad's computers for Southeastern's own creative programs. Rather, Southeastern has invented nothing of its own; its use of Triad's software is, in the district court's words, "neither creative nor transformative and does not provide the marketplace with new creative works."[15] *See id.* at 1523. Southeastern is simply commandeering its customers' software and using it for the very purpose for which, and in precisely the manner in which, it was designed to be used. As a result, the copies made by Southeastern while servicing Triad computers have undoubtedly diminished the value of Triad's copyright. *See id.* As the district court reasoned: "If ISOs like Southeastern freely used Triad's copyrighted software on a widespread basis to compete with Triad, this would likely cause a significant adverse impact on Triad's licensing and service revenues and lower returns on its copyrighted software investment."[16] To allow Southeastern to use Triad's software as it wishes would cause Triad to lose licensing revenues from the ISOs, who "have a substantial motivation to obtain access" to Triad's software.[17] *See Advanced Computer Serv., Inc. v. MAI Sys. Corp.*, 845 F.Supp. 356, 366 (E.D.Va.1994). In short, we detect no appreciable public benefit arising from Southeastern's practice to justify this continuance under the fair use doctrine. *See Sega*, 977 F.2d at 1523. We therefore agree with the district court's thoughtful analysis and its rejection of Southeastern's fair use claim.

---

[15] E.R. at 466.

[16] E.R. at 468.

[17] *Id.* at 468-69.

Southeastern also contends that the district court's analysis was flawed because Triad's copyright does not extend to the service market. We disagree. Triad invented, developed, and marketed its software to enable its customers and its own technicians to service Triad computers. Southeastern is getting a free ride when it uses that software to perform precisely the same service. Triad is entitled to licensing fees from Southeastern and other ISOs that make use of Triad's software in servicing Triad computers. Furthermore, a finding of fair use is unwarranted because the other relevant factors weigh against such a finding. Not only is Southeastern's use of Triad's software entirely commercial in nature, *see Sega*, 977 F.2d at 1522, but also both the OS and the service software are protected expression, and Southeastern is copying programs in their entirety, *see id.* at 1526. *See Advanced Computer Serv.*, 845 F.Supp. at 366 n. 13.

4. *Copyright Misuse.*

Not surprisingly, we also conclude that Southeastern cannot show that it is likely to prevail on its asserted copyright misuse defense. The district court properly granted summary judgment on this claim in favor of Triad. It found that, unlike the case of *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 978-79 (4th Cir.1990), Triad did not attempt to prohibit Southeastern or any other ISO from developing its own service software to compete with Triad. District Court's Order of June 8, 1995, at 7; *see also Advanced Computer*, 845 F.Supp. at 366-67. We agree.

5. *Overbreadth and Harm to Southeastern.*

Southeastern's most plausible claim, that the injunction is too broad because it effectively prevents Southeastern from engaging in legitimate service activities even for Regime 1 customers, also fails. We find that Southeastern is not prevented from performing such service; rather, the injunction properly requires Southeastern to determine which customers own their software under Regime 1, and which are mere licensees under Regimes 2 and 3. Putting this burden on Southeastern is appropriate because Southeastern is the infringer.[18]

Were Triad able to obscure or manipulate which machines fell under which types of agreement, our attitude with respect to this issue might have been different. But that is not the case. The injunction requires Triad to ascertain the status of any computer that Southeastern seeks to service, and it allows Southeastern to perform such service without violating the injunction where Triad fails to provide the requested information. We find that this arrangement is sufficient to prevent any abuse. Therefore, we hold that the district court did not abuse its discretion in issuing the injunction.

Southeastern, we suppose accurately enough, argues that the injunction will cause it to suffer extensive harm as a result. Nonetheless, the argument fails. Southeastern cannot complain of the harm that will befall it when

---

[18] This arrangement is also appropriate because it appears that the majority of Triad computer owners are subject to license agreements and do not own their software outright under Regime 1.

properly forced to desist from its infringing activities. "Where the only hardship that the defendant will suffer is lost profits from an activity which has been shown likely to be infringing, such an argument in defense 'merits little equitable consideration [on an appeal from a preliminary injunction].' " *Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 612 (1st Cir.1988); *accord Apple Computer*, 714 F.2d at 1255 (in motion for preliminary injunction, district court should not consider the "devastating effect" of the injunction on the infringer's business).

6. *Bifurcation.*

Finally, Southeastern contends that the district court erred in dividing the trial into two phases, one involving the copyright action and the other involving Southeastern's antitrust counterclaims. We review that decision by way of an abuse of discretion standard. *Exxon Co. v. Sofec, Inc.*, 54 F.3d 570, 575 (9th Cir.1995), *petition for cert. filed*, 64 U.S.L.W. 3070 (July 24, 1995) (No. 95-129). Southeastern claims that bifurcation prevented consideration of its copyright misuse defense and antitrust claims in conjunction with the infringement action. This was error, Southeastern argues, because its counterclaims will affect the outcome of the case. Once more, we must reject Southeastern's argument.

As Triad correctly points out, a party seeking a preliminary injunction ordinarily is granted relief *before* trial. That is its purpose. Therefore, the fact that some claims in this case have already been reached and others not is irrelevant to the issuance of a preliminary injunction.

Furthermore, Triad's copyright infringement claim and Southeastern's antitrust claims are discrete issues, involving separate, complex bodies of law. The district court justifiably did not want the jury to muddle the two. There was no abuse of discretion.

B. *Rule 11 Sanctions*

We turn now to Lederman's and Madison's appeal regarding the sanctions imposed on them under Rule 11 of the Federal Rules of Civil Procedure.

1. *Facts.*

In October 1992, Triad, in a then unsuccessful motion for a preliminary injunction against Southeastern, supported its motion with the declaration of David Mullen, Triad's field service coordinator ("the Mullen declaration"). Ten months later, Southeastern deposed Mullen and questioned him at length about his declaration. Mullen had difficulty answering questions and at times contradicted his declaration statements.

As a result, Southeastern filed a motion seeking sanctions under Rule 11 and the court's inherent powers against Triad and both its present counsel, McCutchen, Doyle, Brown & Enersen, and its former counsel, Ware & Friedenrich, which had represented Triad during the preliminary injunction motion. McCutchen, Doyle filed a motion in opposition, arguing that, under the applicable version of Rule 11, sanctions could only be imposed against the person signing the document and not against a law firm generally.

On April 7, 1994, the district court granted Southeastern's motion. Acknowledging that it could not sanction the law firm, Ware & Friedenrich, the district court instead imposed Rule 11 sanctions of $500 each against Lederman and Madison, the attorneys involved in the preparation of the Mullen declaration.

2. *Jurisdiction.*

To forestall an argument on the merits, Southeastern first contends that this court lacks jurisdiction over an appeal from the imposition of sanctions. This is incorrect. We have jurisdiction over the appeal under the collateral order doctrine. *Optyl Eyewear Fashion Int'l Corp. v. Style Cos.*, 760 F.2d 1045, 1047 n. 1 (9th Cir.1985). An order imposing Rule 11 sanctions upon counsel, a nonparty, is final and appealable by the attorney sanctioned upon imposition of the sanction. *Rachel v. Banana Republic, Inc.*, 831 F.2d 1503, 1508 n. 5 (9th Cir.1987); *Optyl Eyewear*, 760 F.2d at 1047 n. 1.

3. *Merits.*

Lederman and Madison argue that the district court erred by sanctioning them. They maintain that under the then-current version of Rule 11, only a person whose signature was on the declaration could be subject to sanctions. Southeastern, on the other hand, insists that sanctions were appropriate because Lederman and Madison were actively involved in the preparation of the misleading declaration, and because Triad's brief, which did bear their signatures, was misleading inasmuch as it

relied heavily on the Mullen declaration. We find that the order imposing sanctions on Lederman and Madison was improper and cannot stand.[19]

Until Rule 11 was amended in 1993, subsequent to the Mullen declaration, a bright-line rule applied: Only the individual attorney who actually signed the court paper could be sanctioned because of its contents. *Pavelic & LeFlore v. Marvel Entertainment Group*, 493 U.S. 120, 110 S.Ct. 456, 107 L.Ed.2d 438 (1989); *Giebelhaus v. Spindrift Yachts*, 938 F.2d 962, 965 (9th Cir.1991); *see also id.* at 966 (holding that an attorney's typewritten name on a pleading is not a signature for purposes of Rule 11 and therefore does not subject him to sanctions). As the Supreme Court has explained:

> We held in *Pavelic & LeFlore* that Rule 11 contemplates sanctions against the particular individual who signs his or her name, not against the law firm of which that individual is a member, because "the purpose of Rule 11 as a whole is to bring home to the *individual signer* his personal, nondelegable responsibility . . . to validate the truth and legal reasonableness of the papers filed."

Business Guides, Inc. v. Chromatic Communications Enters., Inc., 498 U.S. 533, 546-47, 111 S.Ct. 922, 930-31, 112 L.Ed.2d 1140 (1991) (quoting *Pavelic & LeFlore*, 493 U.S. at

---

[19] Though this court reviews orders imposing Rule 11 sanctions for an abuse of discretion, "[a] district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law. . . . " *Giebelhaus*, 938 F.2d at 964 (quoting *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405, 110 S.Ct. 2447, 2461, 110 L.Ed.2d 359 (1990)).

126, 110 S.Ct. at 459-60) (emphasis added);[20] *see also* Fed.R.Civ.P. 11 ("Every pleading, written motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record *in the attorney's individual name.* . . . ") (emphasis added) (prior to 1993 amendment).

Inasmuch as Lederman and Madison did not sign the Mullen declaration, they cannot be sanctioned based on its misleading nature.[21] Southeastern nonetheless urges us to uphold the sanctions order because Triad's brief, which Madison apparently did sign, must also have been

---

[20] The Court extended this reasoning in *Business Guides* to apply the certification requirement of Rule 11 to represented parties who sign court papers, even where they are not required to do so. 498 U.S. at 543, 546-47, 111 S.Ct. at 930-31.

[21] *Giebelhaus*, 938 F.2d at 965; *see also Pony Express Courier Corp. of Am. v. Pony Express Delivery Serv.*, 872 F.2d 317, 319 (9th Cir.1989) (holding that co-counsel who did not sign the answer could not be held liable under Rule 11 for its contents). Southeastern's argument that Lederman and Madison were involved in the preparation of the declaration is to no avail. Southeastern relies heavily on a district court case, *Mercury Serv., Inc. v. Allied Bank of Texas*, 117 F.R.D. 147 (C.D.Cal.1987), *aff'd*, 907 F.2d 154 (9th Cir.1990). There, the court imposed sanctions under Rule 11 and its inherent powers against both the bank and its counsel for filing the declaration of one of the bank's vice-presidents, which was later revealed not to be based on personal knowledge. To the extent that the court's holding rests on its power under Rule 11 (which is not clear from the text of the decision), however, the case is no longer good law in light of the Supreme Court's decisions in *Pavelic & LeFlore and Business Guides*. *See Giebelhaus*, 938 F.2d at 965 ("Absent a signature, [the attorney's] relationship to the litigation is irrelevant under the express terms of Rule 11.") (citing *Pavelic & LeFlore*).

misleading because it relied heavily on the Mullen declaration. We need not consider whether the district court *could* have chosen to sanction Lederman and Madison on this basis, because it did not. The district court's order is based exclusively on the misleading nature of the Mullen declaration.[22] No factual findings were made regarding Triad's brief or any other paper filed in this action. Furthermore, the district court clearly stated that it was sanctioning Lederman and Madison under Rule 11 and not under the court's inherent powers. As a result, there is no available alternative basis for upholding the sanctions. We must set aside the sanctions imposed on Lederman and Madison.

AFFIRMED AS TO THE PRELIMINARY INJUNCTION; REVERSED AS TO THE IMPOSITION OF SANCTIONS.

---

[22] *See* E.R. at 150-200.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

TRIAD SYSTEMS CORPORATION, a Delaware corporation, Plaintiff, v. SOUTHEASTERN EXPRESS CO., et al., Defendants. AND RELATED COUNTERCLAIMS.	No. C 92-1539 FMS ORDER OF PRELIMINARY INJUNCTION (Filed Mar. 15, 1995)

The motion of plaintiff and counter-defendant Triad Systems Corporation ("Triad) for an injunction came on for hearing on February 22, 1995, at 9:00 a.m. All parties appeared through their respective counsel of record.

The Court has considered the Jury Verdict dated February 3, 1995, which found that Southeastern infringed Triad's software copyrights, as well as the record at trial, and the pleadings and arguments of counsel. The Court finds, for purposes of this preliminary injunction, that Triad has shown a threat of irreparable harm from Southeastern's business practices. Specifically, the court finds that:

1. Southeastern has long-term service contracts with Regime 2 and 3 Triad customers. Those contracts give Southeastern an incentive to use Triad's utility software programs.

2. Southeastern has indicated since the Jury Verdict was entered that it intends to continue servicing its customers' computers.

3. There is no legitimate reason to stay this injunction pursuant to Fed. R. Civ. P. 62(a) or otherwise. The harm that the stay might cause Triad outweighs any harm that denying it might cause Southeastern, particularly because the injunction will only require Southeastern to refrain from committing further acts of infringement.

Based on the foregoing, IT IS ORDERED THAT:

1. As used in this Preliminary Injunction, the following terms shall have the meaning indicated:

(a) "Applicable Purchase or License Agreement(s)" shall mean each agreement between Triad and a customer pursuant to which the customer obtained any software that is installed on or normally used with the customer's Triad computer system. In the event that a Triad customer sells its computer system, the Applicable Purchase or License Agreements shall mean: (i) each agreement between Triad and the initial purchaser of the computer system from Triad pursuant to which that customer obtained any software that is installed on or normally used with the Triad computer system, and (ii) each agreement between Triad and any subsequent owner of the computer system pursuant to which the subsequent owner obtained any software that is installed on or normally used with the Triad computer system.

(b) "License Agreement" shall mean a Triad "System Purchase, Support, and License Agreement"; a

Triad "System Purchase, Service, License and Subscription Agreement"; a Triad "Master Customer Agreement"; or any other form of agreement between Triad and a customer that explicitly licenses software to the customer.

(c) "Licensed Software" shall mean:

(i) All software described in a License Agreement and provided by Triad to a customer pursuant to such agreement.

(ii) All software provided by Triad to a customer together with a computer system acquired under a License Agreement.

(iii) All enhancements (e.g., newer releases of software, patches and similar enhancements) to Licensed Software provided by Triad to a customer pursuant to a support agreement (but not enhancements to Regime 1 software to which the customer is entitled under another agreement).[1]

(d) "Triad Operating System and Utility Programs" shall mean:

(i) The operating system software;

(ii) The following software utilities: modes AEN, AFK, AFS, AID, ARE, ATR, B2P, BDA, BIN, BRP, BYS, C22, C23, C24, CAD, CBD, CBF, CBP, CCF, CCN, CDL, CDR, CDT, CED, CFD, CLL, CLT, CMD, CMS, COI, CPC, CPD, CPN, CPS, CRT, CSB, CSD, CSI, CVT, D/H,

---

[1] Nothing in the definition of "Licensed Software" should be construed to eliminate the possibility that a customer will have some software that is purchased software and other software that is Licensed Software.

DAR, DCT, DDR, DMH, DMM, DMO, DNM, DOI, DRL, DRS, DSA, DSF, DSH, DST, DTD, DWN, DZL, ECN, EDO, ERT, ESN, ESY, ETP, ETR, FAT, FIB, FID, FLR, FLZ, FMT, FMT.LOG, FRQ, FSO, FSS, FST, GPL, ICA, IDT, IDV, IFM, IHE, IML, INC, INI, INM, INP, INS, ISA, ISC, JAM, LAL, LIR, LOG, LPN, LTP, M2S, MAP, MBN, MCI, MCJ, MDS, MDU, MFD, MJS, MPF, MPI, MTS, O/H, PDS, PEL, PFA, PLA, PLF, PNE, POP, PRE, PRL, PRT, PRX, PSA, PRL, PTX, PXS, R23, RAP, RDA, RDM, RDS, RDU, REC, RFS, RPV, RRI, RSS, RST, RTD, RTN, S2M, SCP, SDT, SEC, SELPRT, SFS, SOS, SQS, SS1, SSC, SSV, SZB, SZS, TAI, TCN, TPL, TRM, TSD, TSN, UPN, USI, USO, WCC, WDE, YYY, and, ZZZ; any formatting utility; any disk zoning utility; any set system parameters utility; and, any initialize system configuration utility; and

(iii) The software that creates each of the following utility reports: customer "A" record address report, part number address report, VAT transaction address report, check record address reports, payables address report, chart of accounts record address report, GL transaction by transaction address report, GL transaction by account address report, SKU address report, bar code address report, insufficient funds address report, backorder address report, cord analysis address report, Goodyear information address report, invoice address reports, special inventory transmission, mailing list customer address report, manufacturing test report, patch customer report, P.O. "a" record address report, P.O. address report, rebate record address report, sales analysis address report, telepricing address report, vendor

address report, A/R transaction address report by transaction, A/R transaction address report by customer, and, customer address report.

2. Defendants Southeastern Express Systems, George Barnes, Gerry Wambolt, Kevin Clark, the officers, agents, servants, employees of each of them, and all those acting in active concert or participation with any of them who receive actual notice of this order by personal service or otherwise (collectively, "Southeastern") are hereby ordered, pending the final outcome of this litigation:

(a) Subject to paragraph 3 below, not to copy any Triad Operating System and Utility Programs without first having determined, from a review of the Applicable Purchase or License Agreement(s) (which Triad shall provide within ten business days upon written request by the customer) that the Triad Operating System and Utility Programs they intend to copy are not Licensed Software. If Triad fails to provide the Applicable Purchase or License Agreements within ten business days of the customer's written request, no violation of this injunction will occur by any use or copying of the customer's software pending Triad's provision of the applicable agreements.

(b) Not to employ Triad's REST software program or any other telecommunication capability to copy any Triad Operating System and Utility Programs installed on a customer's Triad computer system without first having determined, from a review of the Applicable Purchase or License Agreement(s) (which Triad shall provide within ten business days upon written request by

the customer) that the Triad Operating System and Utility Programs they intend to copy are not Licensed Software. If Triad fails to provide the Applicable Purchase or License Agreements within ten business days of the customer's written request, no violation of this injunction will occur by any use or copying of the customer's software pending Triad's provision of the applicable agreements. Nothing in this paragraph shall be construed as prohibiting Southeastern from using its own copy of REST, subject to the limitations of this paragraph.

(c) Not to distribute any Triad software, including but not limited to, in the course of selling, brokering, or otherwise transferring possession of Triad computers, without first either (1) having determined, from a review of the Applicable Purchase or License Agreement(s) (which Triad shall provide within fifteen business days upon written request by (a) the current owner or licensee; or (b) the person or entity to which the software will be distributed, clearly identifying the current owner or licensee) that the Triad Operating System and Utility Programs they intend to distribute are not Licensed Software; or (2) receiving from the person or entity to whom the software will be distributed written verification that the person or entity has obtained a License Agreement encompassing all the Licensed Software that will be distributed to it. If Triad fails to provide the Applicable Purchase or License Agreements within fifteen business days of the written request, no violation of this injunction will occur by any distribution of that software.

(d) Not to perform any port expansion upgrade (also referred to as an I/O or hardware upgrade) without first either (1) having determined, from a review of the

Applicable Purchase or License Agreement(s) (which Triad shall provide within fifteen business days upon written request by the customer) that the software installed on the computer or normally used with it is not Licensed Software; or (2) receiving from the person or entity to whom the software will be distributed written verification that the person or entity has obtained a License Agreement for all the Licensed Software that permits use of all the Licensed Software on a computer having the I/O capacity that will be present on the computer at the time the port expansion upgrade is completed. If Triad fails to provide the Applicable Purchase or License Agreements within fifteen business days of the customer's written request, no violation of this injunction will occur by any port expansion upgrade.

(e) Not to offer to perform, and not to represent that it will perform, any service on a Triad computer if providing the offered service would violate any provision of this preliminary injunction.

(f) To obtain, to maintain in a safe place, and to provide in response to any order to show cause from this Court a copy of each of the Purchase or License Agreement(s) or, in the event neither the customer nor Triad produces the relevant Purchase or License Agreement(s), other records reviewed to determine that software is not Licensed Software.

3. Nothing in this Preliminary Injunction shall preclude the act of switching on power to or otherwise turning on a Triad computer provided that no other act is taken contrary to the terms of the Preliminary Injunction

to cause any Licensed Software to be copied. Also, nothing in this Preliminary Injunction shall preclude Southeastern from consulting or assisting a customer in the use or service of the customer's computer so long as Southeastern does not itself make copies of Licensed Software as prohibited by this injunction.

4. In order to allow Southeastern to seek an emergency stay from the United States Court of Appeals for the Ninth Circuit, this preliminary injunction is stayed until the earlier of:

(a) twenty-one days following the date of its entry;

(b) entry of an order from the United States Court of Appeals for the Ninth Circuit denying a stay.

5. This preliminary injunction shall not become effective until Triad has furnished, in accordance with Local Rule 290, a bond or other security in the amount of $250,000 for the payment of such costs and damages as may be incurred or suffered by Southeastern if it is found to have been wrongfully enjoined.

6. Any disputes which arise under this preliminary injunction shall be referred to Magistrate Judge Phyllis J. Hamilton for resolution. The prevailing party shall be entitled to attorney's fees and costs, unless otherwise ordered by Magistrate Judge Hamilton.

SO ORDERED.

DATED: March 14, 1995

/s/ Fern M. Smith
Fern M. Smith
United State District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

TRIAD SYSTEMS CORPORATION, Plaintiff (s), vs. SOUTHEASTERN EXPRESS CO., Defendant (s).	No. C 92-1539-FMS FINDINGS OF FACT REGARDING FAIR USE (Filed Mar. 15, 1995)

The Phase One jury trial in this matter was heard from January 17 through February 2, 1995.

On January 25, 1995, after consideration of evidence presented and Southeastern's offer of proof, the Court found Southeastern had failed to raise a genuine issue of disputed material fact as to the fair use defense to Triad's distribution claim. Accordingly, the Court held as a matter of law that Southeastern's distribution of Triad's licensed software was not a fair use under the Copyright Act. Trial Transcript ("Tr.") at 1511-1524.

On January 31, 1995, Triad moved for a directed verdict on all its copyright infringement claims and the remaining fair use issues. Southeastern moved for a directed verdict on Triad's contributory infringement claim. Tr. at 2360, 2402, 2406. The Court denied both parties' motions on the infringement issues and granted Triad's motion for a directed verdict on the remaining fair use issues. Tr. at 2584, 2613-16.

On February 3, 1995, by unanimous verdict, the jury found that Southeastern infringed Triad's copyrights in its software by servicing Triad computers, by distributing Triad licensed software when brokering used Triad computers, and by performing port expansion upgrades to existing Triad computers. Verdict Form (February 3, 1995) at 2-3.

In further explanation of its earlier fair use rulings, the Court makes the following findings of fact:[1]

1. Triad manufactures and distributes computer systems and software used with its computer systems for the automotive parts industry. The computer systems and software involved in this case are known as the "Series 12 family" computers and software.

2. Triad owns undisputed copyrights in the Series 12 software, including the operating system and utilities software.

3. Prior to 1986, Triad sold its software for its computers under purchase agreements, known as Regime 1 agreements. Customers that bought Triad software under Regime 1 agreements own the particular copies of software acquired in this way. Regime 1 customers have the right to authorize others, including Southeastern, to use or copy the software in the course of providing maintenance service. Triad's copyright infringement claims do not involve Southeastern's use, copying or distribution of

---

[1] Except as otherwise noted, the Court further finds that the fact was not genuinely disputed by evidence presented by Southeastern or by evidence proffered by Southeastern in its offer of proof.

software owned by customers or software that Southeastern acquired from someone who previously owned it.

4. In late 1985, Triad began licensing its software to customers under license agreements, known as Regime 2 and 3 agreements. Under these agreements, Triad owns its software and the customer acquires a restricted right to use the software. The license allows only the Triad customer itself or its direct employees to use or distribute the software described in the license. The license prohibits the customer from allowing others, including Southeastern, to use it.

5. Southeastern is an independent service organization ("ISO") that provides computer maintenance service to owners of Series 12 Triad computer systems. Southeastern also buys and sells used Triad computers and sells hardware upgrades to existing computer systems. *Id.*

A. The Purpose and Character Of The Use

6. Southeastern is a for-profit entity that services Triad computers and buys and sells used Triad computers for commercial gain. Southeastern's use and distribution of Triad's software is entirely commercial in nature.

7. Southeastern's use and distribution of Triad's licensed software is neither creative nor transformative and does not provide the marketplace with new creative works.

8. As part of its regular business practice, Southeastern often uses and copies Triad's licensed software for precisely the purpose for which it was created – to service Triad computer systems. When Southeastern

copies Triad's licensed software to service a Triad computer, there is a high probability that the copy made by Southeastern diminishes the value of the copyright to Triad. Likewise, when Southeastern distributes Triad's licensed software, there is a high probability that Southeastern's distribution reduces potential revenues Triad would have made and earned by way of a license fee.

B. The Nature Of The Copyrighted work

9. Software may contain creative expression eventhough there exists hardware constraints that programmers must work within. The evidence at trial established that Triad's software contains significant creative expression.

10. The evidence at trial also established that Triad invested significant amounts of time and creative effort in developing and updating its software. This creative component is evident on the software programs used most during the course of servicing Triad computers: LIR, used to find "illegal records"; REST, Triad's telecommunications program; the Series 12 operating system; and the repartition utility.

The Court concludes that Triad's software, while it has utilitarian elements, is predominantly creative in nature.

C. The Amount And Substantiality Of The Portion Used In Relation To The Copyrighted Work As A Whole

11. When Southeastern uses Triad's licensed software programs to service Triad computers and copies programs from disk to RAM, Southeastern copies the entire program into RAM. When Southeastern distributes Triad's software, it distributes entire programs.

12. Regardless of the quantity copied, Southeastern's use of Triad licensed software involves the heart of the Triad software programs because Southeastern uses and copies the programs that are of the most use in its service business to perform the tasks its customers need most.

13. Southeastern does not limit its use of Triad's software to just turning on the Triad computer such that the operating system is copied into RAM. Southeastern's use goes beyond that and includes copying whatever Triad software Southeastern deems necessary to service its customers, Triad systems.

D. The Effect Of The Use Upon The Potential Market For Or Value Of The Copyrighted Work

14. Triad's licensing of its operating system and utilities software provides both a current and potential revenue stream for Triad that enables it to recover its investment in software development. Triad's selling of maintenance service for the Triad computer that uses Triad's leased software is another potential revenue

stream that allows Triad to recover its software development investment and encourages future development.

15. If ISOs like Southeastern freely used Triad's copyrighted software on a widespread basis to compete with Triad, this would likely cause a significant adverse impact on Triad's licensing and service revenues and lower returns on its copyrighted software investment.

16. In addition, Triad has provided evidence that Series 12 independent service providers might pay a fee in the range of $70 per customer per month to use the service and operating system software. This fee approximates the charge Triad now makes to its service customers for the development and maintenance of this software.

17. Moreover, witnesses for both parties testified that use of Triad's service software is essential for an independent service provider like Southeastern to remain in the business of providing service contracts on Triad systems, specifically central processing units. Thus, ISOs would have a substantial motivation to obtain access to this software. Accordingly, Southeastern's use, copying and distribution of Triad's licensed software (without paying for it) deprives Triad of licensing revenues from its copyright.

18. Triad's motivation to continue to develop and maintain service software would be impacted if its competitors could avoid the expense of developing this software, but could nevertheless use and copy it to provide. service in competition with Triad. Triad has produced evidence that the widespread use and copying of its software by ISOs would diminish Triad's incentive to

invest money in the development of new copyrightable software products.

E. Other Factors

19. Southeastern's use and copying of Triad's licensed software does not promote the basic purpose of the Copyright Act. The only conceivable public benefit is to lower maintenance service prices for a small segment of the automotive aftermarket industry and provide Southeastern with a profit at the same time.

Based on the entire record in this case, the Court is unwilling to make any finding as to Southeastern good faith, or lack thereof.

SO ORDERED.

DATED: March 14, 1995

/s/ Fern M. Smith
FERN M. SMITH
United States
District Judge

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

TRIAD SYSTEMS CORPORATION, a California corporation, Plaintiff-Appellee, v. SOUTHEASTERN EXPRESS COMPANY, a Georgia de facto partnership, dba SOUTHEASTERN BROKERAGE COMPANY and dba SOUTHEASTERN SYSTEMS; SOUTHEASTERN EXPRESS SYSTEMS, INC., a Georgia corporation; GEORGE BARNES, an individual; KEVIN CLAR, an individual; and GERRY WAMBOLT, an individual, Defendants-Appellants.	No. 95-15552 DC No. CV-92-01539-FMS ORDER (Filed Oct. 12, 1995)

Before: SNEED, CANBY, and FERNANDEZ, Circuit Judges.

The panel has voted to deny appellants' petition for rehearing and to reject the suggestion for rehearing en banc.

The full court has been advised of the suggestion for en banc rehearing, and no active judge has requested a

vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for rehearing is denied, and the suggestion for rehearing en banc is rejected.

The stay of the injunction pending appeal to this court, granted by this court on April 20, 1995, is hereby lifted.

§ 101. Definitions

Except as otherwise provided in this title, as used in this title, the following terms and their variant forms mean the following:

An "anonymous work" is a work on the copies or phonorecords of which no natural person is identified as author.

An "architectural work" is the design of a building as embodied in any tangible medium of expression, including a building, architectural plans, or drawings. The work includes the overall form as well as the arrangement and composition of spaces and elements in the design, but does not include individual standard features.

"Audiovisual works" are works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied.

The "Berne Convention" is the Convention for the Protection of Literary and Artistic Works, signed at Berne, Switzerland, on September 9, 1886, and all acts, protocols, and revisions thereto.

A work is a "Berne Convention work" if –

(1) in the case of an unpublished work, one or more of the authors is a national of a nation adhering to the Berne Convention, or in the case of a published work, one or more of the authors is a national of a nation adhering to the

Berne Convention on the date of first publication;

(2) the work was first published in a nation adhering to the Berne Convention, or was simultaneously first published in a nation adhering to the Berne Convention and in a foreign nation that does not adhere to the Berne Convention;

(3) in the case of an audiovisual work –

(A) if one or more of the authors is a legal entity, that author has its headquarters in a nation adhering to the Berne Convention; or

(B) if one or more of the authors is an individual, that author is domiciled, or has his or her habitual residence in, a nation adhering to the Berne Convention;

(4) in the case of a pictorial, graphic, or sculptural work that is incorporated in a building or other structure, the building or structure is located in a nation adhering to the Berne Convention; or

(5) in the case of an architectural work embodied in a building, such building is erected in a country adhering to the Berne Convention.

For purposes of paragraph (1), an author who is domiciled in or has his or her habitual residence in, a nation adhering to the Berne Convention is considered to be a national of that nation. For purposes of paragraph (2), a work is considered to have been simultaneously published in two or more nations if its dates of publication are within 30 days of one another.

The "best edition" of a work is the edition, published in the United States at any time before the date of deposit, that the Library of Congress determines to be most suitable for its purposes.

A person's "children" are that person's immediate offspring, whether legitimate or not, and any children legally adopted by that person.

A "collective work" is a work, such as a periodical issue, anthology, or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole.

A "compilation" is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship. The term "compilation" includes collective works.

"Copies" are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.

"Copyright owner", with respect to any one of the exclusive rights comprised in a copyright, refers to the owner of that particular right.

The "country of origin" of a Berne Convention work, for purposes of section 411, is the United States if –

(1) in the case of a published work, the work is first published –

(A) in the United States;

(B) simultaneously in the United States and another nation or nations adhering to the Berne Convention, whose law grants a term of copyright protection that is the same as or longer than the term provided in the United States;

(C) simultaneously in the United States and a foreign nation that does not adhere to the Berne Convention; or

(D) in a foreign nation that does not adhere to the Berne Convention, and all of the authors of the work are nationals, domiciliaries, or habitual residents of, or in the case of an audiovisual work legal entities with headquarters in, the United States;

(2) in the case of an unpublished work, all the authors of the work are nationals, domiciliaries, or habitual residents of the United States, or, in the case of an unpublished audiovisual work, all the authors are legal entities with headquarters in the United States; or

(3) in the case of a pictorial, graphic, or sculptural work incorporated in a building or structure, the building or structure is located in the United States.

For the purposes of section 411, the "country of origin" of any other Berne Convention work is not the United States.

A work is "created" when it is fixed in a copy or phonorecord for the first time; where a

work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

A "device", "machine", or "process" is one now known or later developed.

To "display" a work means to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images nonsequentially.

A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A work consisting of sounds, images, or both, that are being transmitted, is "fixed" for purposes of this title if a fixation of the work is being made simultaneously with its transmission.

The terms "including" and "such as" are illustrative and not limitative.

A "joint work" is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.

"Literary works" are works, other than audiovisual works, expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the nature of the material objects, such as books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards, in which they are embodied.

"Motion pictures" are audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds, if any.

To "perform" a work means to recite, render, play, dance, or act it, either directly or by means of any derive or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

"Phonorecords" are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "phonorecords" includes the material object in which the sounds are first fixed.

"Pictorial, graphic, and sculptural works" include two-dimensional and three-dimensional works of fine, graphic, and applied art, photographs, prints and art reproductions, maps, globes, charts, diagrams, models, and technical drawings, including architectural plans. Such works shall include works of artistic craftsmanship insofar as their form but not their mechanical or utilitarian aspects are concerned; the design of a useful article, as defined in this section, shall be considered a pictorial, graphic, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.

A "pseudonymous work" is a work on the copies or phonorecords of which the author is identified under a fictitious name.

"Publication" is the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public performance, or public display, constitutes publication, A public performance or display of a work does not of itself constitute publication.

To perform or display a work "publicly" means –

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

"Registration", for purposes of sections 205(c)(2), 405, 406, 410(d), 411, 412, and 506(e), means a registration of a claim in the original or the renewed and extended term of copyright.

"Sound recordings" are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.

"State" includes the District of Columbia and the Commonwealth of Puerto Rico, and any territories to which this title is made applicable by an Act of Congress.

A "transfer of copyright onwership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

A "transmission program" is a body of material that, as an aggregate, has been produced for the sole purpose of transmission to the public in sequence and as a unit.

To "transmit" a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.

The "United States", when used in a geographical sense, comprises the several States, the District of Columbia and the Commonwealth of Puerto Rico, and the organized territories under the jurisdiction of the United States Government.

A "useful article" is an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information. An article that is normally a part of a useful article is considered a "useful article".

The author's "widow" or "widower" is the author's surviving spouse under the law of the author's domicile at the time of his or her death, whether or not the spouse has later remarried.

A "work of visual art" is –

(1) a painting, drawing, print, or sculpture, existing in a single copy, in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author, or, in the case of a sculpture, in multiple cast, carved, or fabricated sculptures of 200 or fewer that are consecutively numbered by the author and bear the signature or other identifying mark of the author, or

(2) a still photographic image produced for exhibition purposes only, existing in a single copy that is signed by the author, or in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author.

A work of visual art does not include –

(A)(i) any poster, map, globe, chart, technical drawing, diagram, model, applied art, motion picture or other audio-visual work, book, magazine, newspaper, periodical, data base, electronic information service, electronic publication, or similar publication;

(ii) any merchandising item or advertising, promotional, descriptive, covering, or packaging material or container;

(iii) any portion or part of any item described in clause (i) or (ii);

(B) any work made for hire; or

(C) any work not subject to copyright protection under this title.

A "work of the United States Government" is a work prepared by an officer or employee of the United States Government as part of that person's official duties.

A "work made for hire" is –

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding,

illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

A "computer program" is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.

§ 107. Limitations on exclusive rights: Fair use

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, reaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

§ 117. Limitations on exclusive rights: Computer programs

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

> (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or
>
> (2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise transferred, along with the copy from which such copies were prepared, only as part of the lease sale, or other transfer of all rights in the program. Adaptation so prepared may be transferred only with the authorization of the copyright owner.